33

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Credit Agencies Adopt Common Reporting Score

By REUTERS

Filed at 8:19 p.m. ET

NEW YORK (Reuters) - The three major U.S. consumer credit reporting agencies on Tuesday announced a new credit scoring system they said will simplify the process by which millions of Americans obtain loans.

Equifax Inc. (EFX.N), Experian and TransUnion LLC, a unit of Britain's GUS Plc (GUS.L), in a statement said they adopted the ``VantageScore'' in response to ``market demand for a more consistent and objective approach to credit scoring.''

In the past, the agencies used their own formulas to gauge credit-worthiness. This created the possibility of widely varying scores, which could complicate consumers' ability to obtain credit cards, auto loans, mortgages or other financing.

Many lenders now use ``FICO'' scores, named for Fair Isaac Corp. (FIC.N), which developed software used to generate them.

The VantageScores will range from 501 to 990, compared with the current 350 to 850 range. Higher scores will still indicate greater levels of credit-worthiness, possibly leading to lower interest rates and better borrowing terms.

``For consumers, it will create some confusion,'' said Greg McBride, senior financial analyst at Bankrate.com, a provider of financial data and advice. ``Saying you have a credit score of 750, for example, takes on a whole new meaning. It was a good score on the old system, but is only fair in the new one.''

The new score, if widely embraced by lenders, may pose a competitive threat to Minneapolis-based Fair Isaac, whose shares fell 6.6 percent on Tuesday, closing down $2.79 at $39.37 on the New York Stock Exchange.

``As far as whether it's a real economic threat to us, we feel pretty comfortable,'' said Ron Totaro, Fair Isaac's vice president and general manager of global scoring solutions.

``We have a best-in-breed product that our clients are very happy with,'' he continued. ``The switching costs for our clients are also huge and it's our FICO scores that are used by regulators and the secondary markets.''

The credit-reporting agencies said the new scoring system may still result in different scores for a single consumer, but that variances will result from ``data differences within each of the three consumer credit files.''

Experian and TransUnion said lenders and borrowers may interpret the new scores as though they were grades awarded in school.

A 901-990 score will be considered an ``A,'' for example. ``B'' would equate to an 801-900 score, ``C'' to 701-800, ``D'' to 601-700, and ``F'' to 501-600.

``The range of scores is more intuitive to the consumer,'' McBride said. ``Lenders will have a choice about which scoring methodology to use. Whether they accept the new system will depend on pricing and how widespread the new scores are accepted.''

Equifax is based in Atlanta, Experian in Costa Mesa, California and TransUnion in Chicago.

34

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Agencies Adopt New Credit Scoring System

By Eileen Alt Powell
Posted 14 March 2006 @ 11:53 pm GMT

NEW YORK - The nation's three major consumer credit bureaus have created a new credit scoring system designed to make it easier for financial institutions to evaluate loan applications and to give consumers a better way of measuring their financial health.

The credit reporting agencies _ Equifax, Experian and TransUnion _ announced Tuesday that they're introducing "VantageScore" to banks, mortgage lenders and credit card companies immediately. The new scores will be available to consumers after the lender rollout, probably later this year.

"There's clearly been a need out there to have a consistent scoring model that works across all three reporting agencies' data," said Kerry Williams, group president of Experian's credit services division. "And consumers need a consistent score that they can understand and use in their own financial lives."

Credit scores traditionally have been three-digit numbers that lenders used to evaluate the creditworthiness of borrowers. The scores reflect how much debt a consumer is carrying, how good they've been at paying back loans and how many credit applications they have outstanding.

They're important because lenders use them to determine if they'll loan money to consumers and at what rate. The higher the score, the more creditworthy the consumer is considered and the lower the interest rate the consumer will be charged.

The agencies in the past each used their own proprietary formulas to generate their own scores, meaning that a lender dealing with a consumer's application for a credit card or a mortgage might have to reconcile three widely different scores.

With the new system, a single methodology will be used to create the scores for all three credit bureaus, the agencies said.

As a result, scores will be "virtually the same across all three of the national credit reporting companies," said Experian spokesman Donald Girard. Any difference in the scores provided by each agency will reflect differences in the data they've collected in consumers' files, he said.

The credit reporting agencies said in their announcement that VantageScore "will provide consumers and businesses with a highly predictive, consistent score that is easy to understand and apply."

Consumer advocacy groups expressed concern that the new scoring system would not eliminate one of the biggest problems in the industry which is incorrect information in consumers' credit files.

"That means it's a new recipe, but the same old ingredients," said Jean Ann Fox, director of consumer protection with the nonprofit Consumer Federation of America in Washington, D.C. "It doesn't address the underlying accuracy of the credit reports on which the scores are based."

In addition to the credit agency scores, some large lenders generate their own internal scores, often using credit bureau data. And many lenders, especially those in the mortgage business, use FICO scores, which are named for the Minneapolis-based Fair, Isaac Corp. that developed them.

Thomas G. Grudnowski, the chief executive officer of Fair, Isaac, said that "for the past 20 years, we've been both cooperating and competing with the credit bureaus ... and that will continue." He added that it could take a long time to establish a competing system.

"Do the customers ... really want to go through the pain of converting to another system?" he asked. "I think only time will tell."

Dana Wiklund, senior vice president for predictive sciences at Equifax, said that VantageScore "is a new, competitive product to give lenders greater choice, and hopefully greater accuracy, in credit scoring." He added: "The rate of adoption will determine ultimately if the (new) score replaces any in-house or generic scores in the market."

Executives at the credit agencies said that the bureaus did not need to consult with federal regulators before developing their new scoring process. But a number of executives, including Wiklund, traveled to Washington, D.C., on Monday to brief bank, savings bank and credit union regulators on the new scoring process.

"The role of the regulators is to look at the safety and soundness of the institutions they oversee," Wiklund said. "They're very keenly interested so that models don't have disparate impact ... on low income vs. high income individuals, minority vs. non-minority, that kind of thing."

VantageScore ratings will range from 501 to 990. The top end is slightly higher than scores currently in use.

In a separate statement, Experian said the new scores will be grouped on "the familiar academic scale." Experian gave these groupings, with A and B being the best potential borrowers and D and F being the weakest:

A _ 901-990

B _ 801-900

C _ 701-800

D _ 601-700

F _ 501-600

Colleen Tunney, spokeswoman for TransUnion, told a conference call with reporters and credit industry representatives that the new score was created by looking at millions of consumer files at the same time to ensure consistent readings across the three bureaus' data.

David Rubinger, spokesman for Equifax, said the new score was expected to reduce the variance in a consumer's scores by about 30 percent compared with what it was under the old system.

He said the score would reflect a consumer's frequency of borrowing, delinquency in paying bills and other "file content." But Rubinger and other credit bureau spokesmen said it was too soon to provide the specific weights for the components.

VantageScore is being independently marketed and sold separately through each of the three national credit reporting companies through licensing agreements with VantageScore Solutions LLC, the joint announcement said. The spokesmen said that VantageScore was jointly owned by the three credit bureaus. They said it did not yet have a headquarters, although an informational Web site had been set up at http://www.vantagescore.com .

The credit reporting agencies are operated by Equifax Inc. of Atlanta, Experian Information Solutions Inc. of Costa Mesa, Calif., and TransUnion LLC of Chicago.

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On the Net:

http://www.equifax.com

http://www.experian.com

http://www.transunion.com

http://www.fairisaac.com

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http://uk.ibtimes.com/articles/20060314/credit-bureaus-scoring-system.htm

A simpler score?

Credit-reporting firms create a unified credit-score model

By Andrea Coombes, MarketWatch
Last Update: 5:56 PM ET Mar 14, 2006

SAN FRANCISCO (MarketWatch) -- The three main credit-reporting companies said Tuesday they've joined forces to create one credit-scoring system that will generate consistent scores across all three companies' data.

Once the firms -- Equifax, Experian and TransUnion -- start selling their new VantageScore in coming months, consumers are likelier to get one consistent score from each of the three firms, rather than the three widely-divergent scores consumer often receive now.

With this new credit score product, the only situation in which a consumer's score would vary is if the data contained in her report at, say, Equifax (EFX) , is significantly different than the data in her TransUnion report.

With credit scoring currently, different risk models are applied to each of the three credit firms' data to generate scores, said Kerry Williams, Experian's group president of credit services. Experian is a subsidiary of London-based GUS PLC (UK:GUS: news, chart, profile) .

That means that even if the credit information is identical, a consumer could get different scores.

With "any of the existing scores in the marketplace today, those are three separate models working on the three credit reporting agencies' data," Williams said.

The new product uses "a consistent methodology" across all three firms' data, he said.

Still, the data stored at each credit-reporting firm does often vary, so the companies don't promise one VantageScore for every consumer.

But, the companies said, the variation in scores from each bureau will be less significant, with each score falling closer to the same number.

Some competitors disagree. They say the main reason scores diverge right now is variation in the data, not that different risk models are applied to each data set.

"If you went to MyFico.com and got your three FICO scores, you would see a variance in each one of those scores. It's driven by the data that's input into the algorithms," said Ron Totaro, vice president and general manager of global scoring solutions at Fair Isaac, Inc. (FIC) , developer of the FICO score.

De-throning the FICO?

To be useful to consumers, a credit score has to match the score at which lenders are looking. After all, if you're looking at a 750 score but your lender sees 650, you're in for a surprise -- either a higher-than-expected interest rate, or a denial of credit altogether.

Right now, plenty of the scores pitched to consumers are not the same as the scores lenders use. Lenders don't buy some of the scores aimed at consumers, or use their own internal scoring system to generate a unique score.

Until now, the FICO score has been the one score that's both available to consumers and highly likely to be used by

lenders.

But if lenders embrace the VantageScore, that situation could change change.

Each of the three credit-reporting firms says they've just started rolling out their new product to lenders. Once credit-granting companies are on board, then they'll start selling VantageScore to consumers, the companies said.

After lenders have a chance to test and adopt the new risk model, "then you have relevancy for the consumers, so this number means something in the credit process," said Paul Springman, chief marketing officer with Equifax.

For its part, Experian says lenders will soon jump on board with the VantageScore.

"As we explain the benefits to the financial institutions, migration will occur," Williams said. He says VantageScore is better at predicting risk than other credit scores, plus offers greater consistency.

"Risk managers want to avail themselves of the best possible techniques to use in their lending decisions," he said.

But Fair Isaac's Totaro says lenders face significant hurdles in switching to new score models.

Some credit-granting firms "have been using a FICO score for 20 years in many cases. It's embedded in lenders' computer systems, lending processes ... you can constantly go back and compare apples to apples on how a portfolio is performing or how you need to adjust your lending criteria," he said.

While the credit-reporting agencies' announcement today was a surprise, he doesn't see the new product as a significant threat.

"We've been dealing with folks trying to come up with another type of credit score and it really hasn't impacted us. We don't see this particular item impacting our business in any way," Totaro said.

Status quo for some products

While the three credit-reporting firms compete with Fair Isaac and other companies to provide credit-score models to lenders and other credit-granting firms, they also partner with those same competitors on the consumer front.

For instance, Equifax currently works with Fair Isaac to sell consumers their Equifax credit reports with a FICO score. For now, those consumer products will continue, Equifax's Springman said.

"We will continue to offer the FICO scoring products on our personal solutions site," Springman said.

But eventually, consumers will "want to pull their VantageScore more than another score because it's being used by a lot of credit grantors," said David Rubinger, an Equifax spokesman.

Experian expects to sell VantageScore to consumers in four to six weeks, while Equifax says it will take six months to a year, and TransUnion said "later this year."

Different scale, similar tips

The new VantageScore will range from a high of 990 -- a higher top end than most current models use -- to a low of 501.

While the scale is slightly different, the rules for keeping your score high will remain the same: Pay your bills on time, don't tap into too much credit in a short time, and keep an eye on your debt-to-credit-limit ratio.

In general, if your outstanding revolving debt is 50% or more of the total credit available to you (all your credit limits added together), your score will take a hit.

The VantageScore will be sold through each of the three credit-reporting firms.

See www.vantagescore.com for more information. ■

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Credit-reporting firms create one unified credit score - MarketWatch

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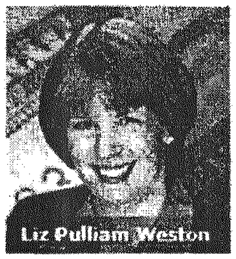
36



The Basics

What the new credit score means to you

Lenders now have a second formula for judging your past, backed by the three giant credit bureaus. Your VantageScore could look very different from your FICO score.

By Liz Pulliam Weston

The three credit bureaus are touting their new credit-scoring system as a boon for borrowers, easier to understand and more "consistent" than other scoring methods.

Maybe. But VantageScore, which uses the same underlying data about your debts as the FICO score you already know, also poses some serious risks. And let's be clear: This isn't about making credit easier for the little guy. This is business.

Big business.

Equifax, Experian and TransUnion are private companies that each track your accounts, balances and payment habits. A credit "score" simply assigns a weight to those factors to produce an indicator of how much risk you pose as a borrower. Fair Isaac's formula for scoring is the one lenders like best.

Every time an appliance store or car dealership asks one of the credit bureaus for your credit score, the data the bureau has collected about you is sent through the proprietary FICO model. The lender pays the credit bureau for the score, and the bureau pays FICO for using its formula.

This is quite a lucrative business for Fair Isaac. Credit scoring accounts for 20% of the company's revenues, according to Merrill Lynch analyst Edward Maguire, but 65% of its operating profits.

The bureaus, naturally, want to cut out the middleman.

"They don't like having to pay Fair Isaac for anything," said mortgage broker Ginny Ferguson, who teaches credit scoring to her colleagues in the National Association of Mortgage Brokers. "The (credit bureaus) are intent on finding the next area of revenue generation."

The bureaus have tried to break Fair Isaac's stranglehold before, with no success. The VantageScore may be a different story.

Investors certainly think so; they drove Fair Isaac's stock down 6.6% on the day the new scoring system was announced, even though the bureaus hadn't signed up a single lender. Analyst Maguire rightly called VantageScore "a shot across the bow" of the bureaus and opined that even if the new system didn't replace FICOs, the bureaus could use it as leverage to get Fair Isaac to lower its prices.

We wouldn't have to care about these elephants' battles, except that consumers may be the grass trampled under their feet. Here are just some of the concerns:

Credit score confusion

FICO and VantageScore use two different ranges. The classic FICO scale runs from 300 to 850, while the VantageScore starts at 501 and runs to 990. The bureaus say the VantageScore range is more "intuitive," because it breaks down like an elementary-school report card:

901-990 equals "**A**" credit

801-900 equals "**B**" credit

701-800 equals "**C**" credit

601-700 equals "**D**" credit

501-600 equals "**F**" credit

But nothing is really intuitive about credit scores, particularly for consumers who are already confused about how FICO scores work. At worst, there could be a heck of a lot of puzzled borrowers trying to figure out why a number that would qualify them for the best rates and terms under one system (say, a 780) makes them credit mediocrities under the other.

The 'consistency' rap

The information in the credit-bureau databases can be wildly different. You may have accounts reported at one bureau that don't show up at the other two, or you may have successfully disputed an error at two of the bureaus only to have the third refuse to erase the bogus entry.

One of FICO's big selling points for lenders has been the model's consistency. Even though the bureaus collect and report credit information differently, the same basic FICO model is used at all three to generate comparable scores.

1 | 2 | next >

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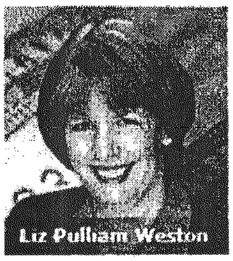

The Basics

What the new credit score means to you

Continued from page 1

VantageScore also aims to create comparable scores from three dissimilar databases. Touting the new system's consistency, though, led some to the conclusion that VantageScore had somehow overcome the variation in data from bureau to bureau. It hasn't.

We shouldn't fall for the idea that the new system is superior without more evidence -- so far, VantageScore hasn't been tested head-to-head with FICO.

The good, the bad and the ugly -- but mostly the bad

VantageScore is being marketed to lenders as being a better way to separate "good" from "bad" risks including, to quote its Web site, "the ability to classify more bad accounts into the worst-scoring ranges."

Lenders, you see, are often less worried about losing out on good customers than they are about getting stuck with bad ones. So if a few potentially good risks get wrongly qualified as bad, lenders aren't that worried as long as they avoid the deadbeats. If you happen to be one of those good eggs who's paying higher interest rates or having trouble getting loans, though, you *should* worry.

Again, the bureaus are quick to say that they haven't tested VantageScore against FICO, so it's unclear whether the upstart actually does sweep more folks into the worst-scoring range. But the fact that it's one of the bureaus' goals should help you understand the point: this is not about making consumers happier.

Perils for the young and thin

One of lenders' beefs about the classic FICO model is that people whose credit histories are "thin" (they have few accounts) or "young" (their oldest account has been established for only a few months or years) can still get pretty high scores. The lenders grump that these borrowers may pose a greater risk than the scores predict, and that people should have more robust credit files before they reach the top of the FICO pyramid.

Once again, without comparing VantageScore directly to FICO, the bureaus are touting it as a better way to grade people with limited credit histories. If that means the young or others without "robust" histories get better access to credit to buy homes and build businesses, this could be a good thing. If it means making credit harder to get for those folks, not so much.

High switching costs

To say that FICO scores are entrenched in the financial world would be understating the case.

"FICO scores are used by 80% of the 50 largest banks. They're used in 75% of the mortgage origination decisions," said Ron Totaro, Fair Isaac's general manager for global scoring solutions. "We're a force because we've been at this for 50 years."

It's not just the lenders that rely on FICO. Most loans today are bundled up and sold to investors, who use the scores to gauge how much risk they're taking with these investments.

Wall Street is comfortable that FICO-scored loans will behave as forecast, Ferguson said, but could be more nervous about the "predictiveness" of a new scoring system. If lenders begin adopting VantageScores, they might tighten up their underwriting guidelines -- in other words, make credit

harder for consumers to get -- while they see how well the loans actually perform.

As I mentioned earlier, though, consumers could stand to reap some benefits from the new score.

For one thing, competition has a way of bringing prices down and forcing companies to improve their products.

But more importantly, the bureaus promise to provide clear guidance about what goes into the scores and how consumers can better their numbers. How specific that guidance will be remains to be seen, but Kerry Williams, group president of Experian's Credit Services, said that he wants consumers to know *exactly* how certain actions can affect their scores. (Currently, Fair Isaac offers a FICO "simulator" through the MyFico.com Web site that can show you how a handful of actions might affect your score, but you're given a range rather than an exact answer.)

At the moment we can't buy our own VantageScores, but Experian promises to make them available to consumers in the next few weeks, and the other bureaus say they'll follow suit by the end of the year. Then we'll have some more information to gauge whether VantageScores really are a better mousetrap -- or just more of the same.

Liz Pulliam Weston's column appears every Monday and Thursday, exclusively on MSN Money. She also answers reader questions in the Your Money message board.

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37

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March 15, 2006

Section: Business

Standardized Credit Score Is Unveiled
The three dominant record-keeping firms announce a system that will compete with Fair Isaac's FICO grades.
Kathy M. Kristof
Times Staff Writer

The nation's three biggest credit-reporting firms said Tuesday that they would standardize how they calculate consumer credit scores, with the goal of making the numbers easier for lenders and borrowers to understand.

The joint move by Equifax Inc., Experian and TransUnion also amounts to a competitive challenge to **Fair Isaac** Corp., the developer of the well-known **FICO** credit-scoring system.

Credit scores are three-digit numbers used by banks, auto dealers, landlords and others to assess consumers' willingness and ability to pay their debts.

By and large, a high score gives a consumer more credit choices and better interest rates on loans.

The three major credit-reporting firms have long used individual formulas to calculate credit scores, with varying grades a possible result.

The joint scoring system, called **VantageScore**, will give consumers "a consistent score that they can understand and use," said Kerry Williams, head of Experian's credit services unit.

The companies will continue to compete by separately collecting data for credit files, which they sell to creditors and consumers.

But an individual's credit scores from the three firms should be the same if the companies' files on that person contain the same data, executives said.

The system will give scores ranging from 501 to 990, which in turn will translate to grades of "A" through "F": Consumers with scores above 900 will be "A" credit risks, those with scores above 800 but less than 901 will rate a "B," and so on.

FICO scores, by contrast, range from 300 to 850.

With any grading system, consumers can expect to score well if they consistently

pay their bills on time, have a long history of paying different types of bills and use their credit modestly.

"That's universal," said Chet Wiermanski, vice president of analytics at TransUnion. "All credit models are evaluating those things. The difference is how they are evaluated and who is considered a good or bad risk."

The companies said the new scoring system would give people with limited credit histories a better shot at loans.

But some analysts said they weren't convinced that the standardized scoring system would make loans more available or lending decisions more predictable for consumers.

Ed Mierzwinski, consumer program director with the U.S. Public Interest Research Group in Washington said an ongoing issue was the accuracy of the underlying reports from the companies. "Our last survey showed that 29% of credit files had serious errors that would affect the consumer's ability to obtain credit," he said.

On Wall Street, **Fair Isaac's** shares fell $2.79, or 6.6%, to $39.37 on Tuesday, apparently because of the prospect of more competition. As a developer of scoring technology, **Fair Isaac** is both a supplier to the credit-reporting firms and a competitor.

Ron Totaro, vice president and general manager of global scoring solutions at **Fair Isaac**, said the credit-reporting companies "have all had their own credit scores that they have tried to sell against us, and they've been wildly unsuccessful. This is them trying to take another crack at our fortress."

FICO scores are used in more than 75% of lending decisions made by banks, mortgage brokers and auto dealers, Totaro said. "Even assuming this is a slightly better mousetrap, I think it's going to be very hard to get lenders to switch," he said.

Shares of Atlanta-based Equifax rose 48 cents to $38.53. Chicago-based TransUnion is privately held. Costa Mesa-based Experian is a unit of Britain's GUS.

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